

**REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL
LEGISLATURE ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION
OF THE PHOKWANE MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Phokwane Municipality, which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Statements of Generally Recognised Accounting Practice (Statements of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996, read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
4. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the municipality in this respect will be limited to reporting on non-compliance with this disclosure requirements.

Basis for disclaimer of opinion

Accumulated surplus

5. I was unable to obtain any evidence that journals in the accumulated surplus/deficit balance with a net debit value of R23 290 195 had been authorised by a senior employee before they were processed. Furthermore, no supporting documentation was attached to these journals and no proper description was provided for the journals. Consequently, I was unable to confirm the accuracy, completeness and occurrence of transactions in respect of reserves. The entity's records did not permit the application of alternative audit procedures regarding the journals.

Reserves

6. I was unable to obtain any evidence to support differences in the opening balances of the capital replacement reserve, capitalisation reserve and government grant reserve amounting to R174 809, R86 292 and R766 165, respectively. The entity's records did not permit the application of alternative audit procedures to validate the differences.

Employee-related costs

7. I was unable to confirm the completeness, accuracy, classification and occurrence of employee-related costs and remuneration of councillors disclosed as R25 756 488 and R3 705 224, respectively, as no reconciliation between the payroll and the financial statements was performed. Supporting documentation could not be obtained to substantiate the difference amounting to R2 769 780. The entity's records did not permit the application of alternative procedures.
8. Leave gratuity payments amounting to R51 154 were awarded in contravention of the Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997). This amount constituted irregular expenditure and was not disclosed as such.

Fruitless and wasteful expenditure

9. Interest amounting to R35 008 was incurred in respect of invoices paid after the due date. This amount was not disclosed in the financial statements.
10. Comparative balances of fruitless and wasteful expenditure amounting to R73 906 were not disclosed in the financial statements.

Revenue

11. A register of fines issued and paid was not maintained. Furthermore, amounts received for fines could not be traced back to supporting documentation. The completeness, accuracy and occurrence of income from fines amounting to R315 016 could not be confirmed. Alternative procedures could not be performed to confirm the completeness, accuracy and occurrence of income from fines.
12. Prepaid electricity income amounting to R75 083 in respect of sales of prepaid electricity by agents was received during the 2008-09 financial year, but no register or agreements were in place to support this amount. Consequently, the completeness and accuracy of this income could not be confirmed. No alternative procedures could be performed.
13. Rental income amounting to R93 218 in respect of the rental of facilities and equipment was received during the 2008-09 financial year, but no rental register or rental contracts existed to support this amount. Consequently, the completeness and accuracy of this income could not be confirmed. No alternative procedures could be performed.
14. A register of gains on disposals of assets was not maintained. Furthermore, amounts received for gains on disposals of assets could not be traced back to supporting documentation. The completeness, accuracy and occurrence of income from gains on disposals of assets amounting to R863 376 could not be confirmed. Alternative procedures could not be performed to confirm the completeness, accuracy and occurrence of gains on disposals of assets.
15. Income from licences and permits amounting to R1 922 949 was received during the 2008-09 financial year, but no register existed to support this amount. Alternative procedures

could not be performed to confirm the completeness, accuracy and occurrence of income from licences and permits.

16. No supporting documentation could be obtained for credit journals amounting to R5 728 765 and I could not confirm the authorisation of journals amounting to R17 435 239 regarding government grants and subsidies amounting to R58 386 463. Consequently, I was unable to confirm the accuracy, completeness and occurrence of transactions in respect of this revenue. The entity's records did not permit the application of alternative audit procedures regarding journals.
17. The occurrence, accuracy, completeness, classification and cut-off of other income amounting to R786 606 in the statement of financial performance could not be confirmed. I was unable to satisfy myself by alternative means concerning the scope limitations identified.
18. The following grant income in the financial statements did not agree to the DoRA schedules of the specific grants. No explanation or supporting documentation was provided by management.

Grant	Financial statements	DoRA schedule	Difference
Municipal infrastructure grant	R5 580 000	R11 580 000	R6 000 000

19. I was unable to confirm conditional grant revenue amounting to R27 635 425, included in government grants and subsidies of R58 386 463 in note 19 to the financial statements. A listing of expenditure in terms of conditional grants was not maintained and I was unable to determine if the expenditure met the conditions of the conditional grants before recognition. Alternative procedures could not be performed to confirm the completeness, accuracy and occurrence of conditional grant income.
20. No supporting documentation or explanations could be provided for a difference of R65 559 between the revenue from rates according to the valuation roll amounting to R6 268 168 and the revenue from rates as disclosed in the financial statements amounting to R6 198 609. The entity's records did not permit the application of alternative audit procedures.
21. No supporting documentation or explanations could be provided for a difference of R2 269 323 between the comparative figures for revenue in the current year. The entity's records did not permit the application of alternative audit procedures.

Description	2008 AFS R	2009 AFS comparatives R	Supporting documentation received R	Difference R
Property rates	4 645 238	4 640 825		4 413
Government grants and subsidies	44 911 258	47 263 228		(2 351 970)
Other income	892 154	728 246	85 673	78 235
	50 448 650	52 632 299	85 673	2 269 323

22. A difference of R7 353 425 was noted between the receipts per the grant schedule amounting to R58 699 557 and the receipts per the bank statements amounting to R51 346 131. As reconciliations were not performed, I could not confirm the completeness, accuracy and occurrence of grant receipts.

Description	Bank statements R	Appendix F R	Difference R
SAPO	-	17 333	(17 332,94)
EPWP Bonita Park	-	249 500	(249 500,00)
FBDM O&M	-	2 031 549	(2 031 549,10)
Sedibeng	830 000,00	3 128 000	(2 298 000,00)
MIG	7 212 504,31	5 580 000	1 632 504,31
TR	4 000 000,00	7 098 167	(3 098 166,66)
DWAF	6 761 588,72	8 052 970	(1 291 381,28)
	18 804 093,03	26 157 518,70	(7 353 425,67)

23. The completeness and accuracy of receipts could not be confirmed, as I identified receipts on the bank statements amounting to R10 437 373 that could not be traced to the general ledger. Alternative procedures could not be performed to confirm the completeness and accuracy of receipts recorded.

Description	Bank statements R	General ledger R	Difference R
Bas NC Transp	3 300 597,78	-	3 300 597,78
Bas nat Water	5 747 448,52	-	5 747 448,52
DBSA	250 000,00	-	250 000,00
BASD NAT	500 000,00	-	500 000,00
Frances baard	639 326,56	-	639 326,56
Total	10 437 372,86	-	10 437 372,86

Trade receivables from exchange transactions

24. The existence, valuation, completeness as well as rights and obligations of other consumer arrears and other recoverable arrears disclosed as R9 446 589 and R3 318 562 in note 15 to the financial statements, respectively, could not be confirmed. I was unable to satisfy myself by alternative means concerning the following scope limitations identified:
- Supporting documentation could not be obtained for other consumer arrears and other recoverable arrears amounting to R8 671 142. The entity's records did not permit the application of alternative audit procedures.
 - Supporting documentation could not be obtained for other recoverable arrears amounting to R745 586. The entity's records did not permit the application of alternative audit procedures.
 - The provision for bad debts was incorrectly calculated, amounting to a difference of R190 751.

- Supporting documentation could not be obtained in respect of differences in opening balances amounting to R1 531 919. The entity's records did not permit the application of alternative audit procedures.

Unpaid conditional government grants and receipts

25. The existence, valuation, completeness as well as rights and obligations of the current asset of unpaid conditional government grants and receipts, disclosed as R2 600 678 in note 8 to the financial statements, could not be confirmed. Furthermore, should this amount not be recoverable, unauthorised expenditure has been understated by the same amount. The entity's records did not permit the application of alternative audit procedures.
26. The existence, valuation, completeness as well as rights and obligations of the current liability of unspent conditional government grants and receipts, disclosed as R6 067 671 in note 8 to the financial statements, could not be confirmed as a result of the unconfirmed receipts and expenditure referred to in paragraphs 19, 22 and 23. The entity's records did not permit the application of alternative audit procedures.

Expenditure

27. The occurrence, accuracy, completeness, classification and cut-off of bulk purchases, contracted services, grants and subsidies paid, other operating grant expenditure and general expenses disclosed as R19 304 933, R852 954, R2 791 228, R3 778 210 and R17 148 084 in the statement of financial performance, respectively, could not be confirmed. I was unable to satisfy myself by alternative means concerning the following inconsistencies and scope limitations identified:
 - Supporting documentation for bulk purchases amounting to R7 048 214 could not be provided for audit purposes. The entity's records did not permit the application of alternative audit procedures.
 - The National Prosecuting Authority and the South African Police Service are busy with an investigation. As a result, supporting documentation for contracted services expenditure amounting to R852 954 could not be provided for audit purposes. The entity's records did not permit the application of alternative audit procedures.
 - Supporting documentation for grants and subsidies expenditure amounting to R2 791 288 could not be provided for audit purposes. The entity's records did not permit the application of alternative audit procedures.
 - Supporting documentation for other operating grant expenditure amounting to R3 778 209 could not be provided for audit purposes. The entity's records did not permit the application of alternative audit procedures.
 - Supporting documentation for general expenditure amounting to R6 247 618 could not be provided for audit purposes. The entity's records did not permit the application of alternative audit procedures.

Trade and other payables

28. The existence, valuation, completeness as well as rights and obligations of creditors disclosed as R7 256 816 in note 7 to the financial statements could not be confirmed. I was unable to satisfy myself by alternative means concerning the following inconsistencies and scope limitations identified:
 - Debit journals amounting to R450 000 could not be substantiated by sufficient appropriate audit evidence. The entity's records did not permit the application of alternative audit procedures.

- Supporting documentation could not be submitted to validate creditors amounting to R1 673 640. The entity's records did not permit the application of alternative audit procedures.
- There was an unexplained difference of R3 350 608 between the accounts payable in the annual financial statements of R7 402 151 and the accounts payable in the creditors sub-general ledger of R4 051 543 submitted for audit purposes. The entity's records did not permit the application of alternative audit procedures.
- Detailed listings of other creditors amounting to R5 529 712 could not be submitted for auditing. Included in this difference were suspense accounts for unidentified receipts amounting to R3 011 175. The entity's records did not permit the application of alternative audit procedures.
- Differences in the opening balances amounting to R237 530 were identified that could not be verified by supporting documentation or management explanations. The entity's records did not permit the application of alternative audit procedures.
- Differences amounting to R225 163 were noted between supplier statements and the creditors sub-ledger. No reconciliations could be provided. The entity's records did not permit the application of alternative audit procedures.

Property, plant and equipment

29. The completeness, existence, valuation as well as rights and obligations of property, plant and equipment of R119 004 016, as disclosed in note 10 to the financial statements, could not be confirmed. I was unable to satisfy myself by alternative means concerning the following inconsistencies and scope limitations:

- The asset register did not include all the information required to facilitate the physical verification of assets. Assets amounting to R97 986 475 could not be physically verified.
- A reconciliation between the asset register and the financial statements was not performed.
- Supporting documentation for capital acquisitions amounting to R20 566 049 could not be provided for audit purposes. The entity's records did not permit the application of alternative audit procedures.
- Supporting documentation for adjustments amounting to R14 064 518 could not be provided for audit purposes. The entity's records did not permit the application of alternative audit procedures.
- The individual annual depreciation charges for the year per major category of fixed assets could not be obtained and could thus not be tested for reasonability. The reason for this is that the depreciation charge for the year was not stated in the fixed asset register.
- The amount of commitments for the purchase of property, plant and equipment was not disclosed as required by paragraph 83 of GRAP 17 *Property, Plant and Equipment*.

Cash and cash equivalents

30. The existence, valuation, completeness as well as rights and obligations of cash and cash equivalent assets (R8 364 047) and liabilities (R6 812 206) in note 17 to the financial statements could not be confirmed. I was unable to satisfy myself by alternative means concerning the following inconsistencies and scope limitations identified:

- The cash and cash equivalent asset balance could not be confirmed, as the reconciliation between the bank statements and the cash-book balance could not be provided for audit purposes. A difference of R493 360 was identified.

- The cash and cash equivalent liability balance could not be confirmed, as the reconciliation between the bank statements and the cash-book balance could not be provided for audit purposes. A difference of R8 163 525 was identified. Due to the limitation, I could not determine the impact of this suspense account on revenue, receivables and grants.
- Bank guarantees amounting to R95 000 were not disclosed in the financial statements.
- Differences in the opening balances of investments amounting to R234 533 could not be substantiated by audit evidence.

Inventory

31. The completeness, existence, valuation as well as rights and obligations of inventory amounting to R318 071 as disclosed in note 14 to the financial statements could not be confirmed. I was unable to satisfy myself by alternative means concerning the following scope limitations identified:
- Differences in the opening balances amounting to R33 152 could not be substantiated by sufficient appropriate audit evidence.
 - No reconciliation could be provided between the actual stock count at year-end and the general ledger.
 - No inventory listing with values could be provided for audit purposes.

Long-term liabilities

32. The existence, valuation, completeness as well as rights and obligations of long-term liabilities amounting to R2 251 119, included in the R4 092 623 as disclosed in note 3 to the financial statements, could not be confirmed. I was unable to satisfy myself by alternative means concerning the following scope limitations identified:
- Differences in the opening balances amounting to R204 277 could not be substantiated by sufficient appropriate audit evidence.
 - Journals amounting to R2 004 042 could not be substantiated by sufficient appropriate audit evidence.
33. Supporting documentation for long-term liabilities amounting to R1 000 000 could not be provided for audit purposes.

Value-added tax (VAT)

34. The completeness, rights and obligations, and valuation of the VAT creditor disclosed as R6 486 816 in note 9 to the financial statement could not be confirmed or verified, as no reconciliations were performed and supporting documents could not be provided for audit purposes. The entity's records did not permit the application of alternative audit procedures.
35. The municipality did not maintain a grant register for all grants received from other organs of state. Therefore, it could not be confirmed whether output VAT was payable on some of these grants. The entity's records did not permit the application of alternative audit procedures regarding VAT.

Contingent liabilities

36. Contingent liabilities amounting to R5 505 000 were not disclosed in the financial statements.

Unauthorised expenditure

37. I have compared the budgeted expenditure with the actual expenditure per the financial statements and found that the unauthorised expenditure disclosed as R18 474 092 was understated by R1 764 554 and should have been R20 238 646.
38. Comparative balances of unauthorised expenditure amounting to R692 981 were not disclosed in the financial statements.

Disclosure

39. A difference of R3 627 214 was identified in the budgeted revenue amount disclosed in the financial statements of R94 027 560, compared to the approved budget amount of R90 400 346.

Corresponding figures

40. International Standard on Auditing 710 on comparatives requires the auditor to modify the auditor's report when the matters that gave rise to the prior period modification of the audit report are still unresolved. The prior year audit report contained the following qualification paragraphs that had not been resolved by 30 June 2009:

- Property, plant and equipment
- Debtors
- Contingent liabilities
- Operating expenditure
- Creditors
- Investments
- Unauthorised expenditure
- VAT
- Fruitless and wasteful as well as irregular expenditure
- Revenue

Risk of fraud and error

41. Owing to management not implementing sufficient controls as well as the extent of differences and uncertainties identified during the audit, material irregularities might exist at the municipality that will not be prevented or identified by the system of internal control and that would not have been identified during the audit due to the material limitations placed on the scope of the audit.

Going concern

42. The municipality's financial statements have been prepared on the going concern basis, which assumes that the municipality will be able to meet its future obligations and commitments in the ordinary course of business. The following conditions indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern:
- The debtors turnover was calculated to be 527 days when the provision for bad debts was added back (2008: 277 days). This is considered high and is an indication of

possible serious cash-flow problems. Furthermore, it was noted that 88% (2008: 80%) of debtors amounting to R59 938 025 were older than 120 days.

- The creditors payment period was calculated to be 124 days (2008: 195 days), which could be an indication that the municipality was experiencing cash-flow problems.
- The municipality's cash-book balance was in overdraft for the duration of the financial year, reflecting conditions that may indicate going concern risk. The overdrawn cash-book balance at year-end amounted to R6,8 million.

Disclaimer of opinion

43. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

Emphasis of matter

I draw attention to the matter below. My opinion is not modified in respect of this matter.

Restatement of corresponding figures

44. As disclosed in notes 30 and 31 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of errors discovered during 2009 in the financial statements of the municipality at, and for the year ended, 30 June 2008.

Other matters

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Information included in the annual report

45. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

46. The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary budget information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. Accordingly, I do not express an opinion thereon.

Non-compliance with applicable legislation

Municipal Finance Management Act

47. Section 126(1)(a) requires financial statements to be submitted by 31 August. Financial statements were submitted on 13 April 2010, seven months after the financial year-end. The submission after 31 August 2008 resulted in non-compliance with section 126(1)(a).

48. The mayor did not table the budget at a council meeting three months before the start of the budget year and the council did not approve the budget at least 30 days before year-end, resulting in non-compliance with sections 16(2) and 24(1).

49. The municipal manager did not perform his duties with regard to budget and performance assessment as prescribed in section 72.

50. The municipality did not ensure that all financial information was displayed on its official website as required by section 21(A) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and section 75(2) of the MFMA.
51. Contrary to section 64(3), the municipality did not inform the National Treasury of payments due by organs of state to the municipality in respect of municipal taxes or municipal services that had regularly been in arrears for periods of more than 30 days.
52. The mayor did not, within seven months after the financial year-end, table an annual report to the council or submit a written explanation to the council for failure to do so.
53. The mayor of the municipality did not ensure that all issues raised by the Auditor-General in the prior year's audit report had been addressed as required by section 131(1).
54. The accounting officer of the municipality did not submit to the provincial treasury a statement in the prescribed format on the state of the municipality's budget for that month and for the financial year up to the end of that month within 10 working days after the end of each month, contrary to section 71.
55. The municipality did not maintain a declaration register for receipts and did not consider the details of private business interests of all bid members, supply chain management staff and other officials involved in the supply chain management system of the municipality, as required by regulation 46 of the MFMA.
56. The municipal manager did not inform the council in writing of impending overspending of the municipality's budget and what steps could be taken to prevent or rectify such overspending, as required by section 70(1).
57. The mayor did not, within 30 days of the end of each quarter, submit a report to the council on the implementation of the budget and the financial state of affairs of the municipality, as required by section 52(d). This report was also not submitted to the provincial treasury and the Auditor-General, contrary to section 54(1).
58. The mayor did not promptly respond to and initiate remedial or corrective steps proposed by the accounting officer to deal with financial problems experienced by the municipality nor alert the council and the MEC for local government in the province to those problems, as required by section 54(2).
59. The municipal manager did not in all instances submit such information, returns, documents, explanations and motivations as prescribed to the National Treasury, the provincial treasury, the department of local government in the province or the Auditor-General, contrary to the requirements of section 74.
60. Contrary to section 79, the municipality did not have formal, written delegations of authority.
61. Contrary to section 62, the municipal manager did not take reasonable steps to ensure that full and proper records of the financial affairs of the municipality were kept in accordance with prescribed norms and standards, as exemplified by the disclaimer of opinion in paragraph 43.
62. No evidence was submitted for audit purposes that the municipal manager had provided guidance and advice on compliance with the MFMA to the political structures, political office-bearers and officials of the municipality.

63. The municipal manager did not submit reports to the mayor, MEC for local government and the Auditor-General with regard to unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 32(4).
64. No recoveries were made or actions taken in respect of the unauthorised as well as the fruitless and wasteful expenditure disclosed in the financial statements, contrary to section 32(1) and (3).
65. Supporting documentation could not be provided to indicate that all budget processes and related matters had been performed in terms of the requirements of section 53.
66. The municipality did not disclose the total amount paid and the amounts outstanding as at the last day of the financial year for taxes, as required by section 125(1)(b).

Municipal Investment Regulations, Government Gazette No. 27431 of 1 April 2005

67. The municipality did not establish an appropriate and effective cash management investment policy in accordance with the framework prescribed by the Municipal Investment Regulations.

Supply Chain Management Regulations, 2005

68. No evidence could be obtained that the municipality had followed a competitive bidding process for banking services in the last five years, contrary to regulation 30.
69. The list of accredited suppliers was not updated at least quarterly and there was no proof of public invitations to prospective suppliers when updates were done, as required by regulation 14.

Value-Added Tax Act, 1991 (Act No. 89 of 1991)

70. The municipality did not ensure that in all instances suppliers' invoices clearly indicated the suppliers' VAT registration number as required by section 20(4).
71. The municipality did not apply the apportionment formula on input VAT as prescribed in section 18.

Municipal Systems Act

72. The municipality did not have a performance information system for section 57 employees, and the officials holding management positions had not signed performance agreements as required by section 57.

Governance framework

73. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

Internal control deficiencies

74. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the disclaimer of opinion. The root causes are categorised according to the five components of an effective

system of internal control. In some instances deficiencies exist in more than one internal control component.

Par. no.	Basis for disclaimer of opinion	CE	RA	CA	IC	M
5	Accumulated surplus	1;5	1	1;3	1	1
6	Reserves	1;5	1	1;3	1	1
7 – 8	Employee-related costs	1;5	1	1	1	1
9 – 10	Fruitless and wasteful as well as irregular expenditure	1;5	1	1;5	1	1
11 – 23	Revenue	1;5	1	1	1	1
24	Trade receivables from exchange transactions	1;5	1	1;3	1	1
25 - 26	Unpaid conditional government grants and receipts	1;5	1	1;3	1	1
27	Expenditure	1;6	1	1	1	1
28	Trade and other payables	1;5	1	1;3	1	1
29	Property, plant and equipment	1;5	1;2	1;6	1	1
30	Cash and cash equivalents	1;5	1	1;6	1	1
31	Inventory	1;5	1	1;6	1	1
32 – 33	Long-term liabilities	1;5	1	1	1	1
34 – 35	VAT	1;5	1	1;3	1	1
36	Contingent liabilities	1;4	1	1;6	1	1
37 – 38	Unauthorised expenditure	1;5	1	1;5	1	1
39 – 40	Disclosure and corresponding figures	1;5	1	1;5	1	1
42	Going concern	1;5	1	1;5	1	1

75. The shortcomings that led to the disclaimer of opinion could have been avoided if care had been taken with regard to the independent review and reconciliation of account balances as well as the safeguarding of information for audit purposes.

Legend	
CE = Control environment	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
RA = Risk assessment	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
CA = Control activities	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1

General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
IC = Information and communication	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
M = Monitoring	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self-assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

Key governance responsibilities

76. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		✓
Quality of financial statements and related management information			
2	The financial statements were not subject to any material amendments resulting from the audit.		✓
3	The annual report was submitted for consideration prior to the tabling of the auditor's report.		✓
Timeliness of financial statements and management information			
4	The annual financial statements were submitted for auditing as per the legislated deadlines (section 126 of the MFMA).		✓
Availability of key officials during audit			
5	Key officials were available throughout the audit process.		✓
Development and compliance with risk management, effective internal control and governance practices			
6	Audit committee		
	The municipality had an audit committee in operation throughout the financial year.	✓	
	The audit committee operates in accordance with approved, written terms of reference.	✓	
	The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		✓
7	Internal audit		
	The municipality had an internal audit function in operation throughout the financial year.	✓	
	The internal audit function operates in terms of an approved internal audit plan.		✓
	The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		✓
8	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		✓
9	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		✓
10	The information systems were appropriate to facilitate the preparation of the financial statements.		✓
11	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(c)(i) of the MFMA.		✓
12	Delegations of responsibility are in place, as set out in section 79 of the MFMA.		✓
Follow-up of audit findings			
13	The prior year audit findings have been substantially addressed.		✓
14	SCOPA/Oversight resolutions have been substantially implemented.		✓
Issues relating to the reporting of performance information			

No.	Matter	Y	N
15	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		✓
16	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		✓
17	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the municipality against its mandate, predetermined objectives, outputs, indicators and targets (section 68 of the MFMA).		✓
18	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		✓

77. Other than having an audit committee and internal audit function, key governance responsibilities have not been implemented.

Investigations

78. The National Prosecuting Authority and the South African Police Service investigated allegations of possible fraud in the awarding of contracts. The investigation aimed to establish if the Municipal Supply Chain Management Regulations published in *Government Notice 868 of 2005* were adhered to. The investigation was still ongoing at the reporting date.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

79. I was engaged to review the performance information.

The accounting officer's responsibility for the performance information

80. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the MSA.

The Auditor-General's responsibility

81. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

82. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

83. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

Non-compliance with regulatory requirements

No reporting of performance information

84. As the annual report of the municipality for the 2008-09 financial period was not submitted for auditing, I could not determine whether the annual performance report was included in

the annual report of the municipality, as required by section 46 of the MSA and section 121(3)(c) of the MFMA.

Content of integrated development plan (IDP)

85. The IDP of the municipality did not include the key performance indicators, performance targets determined in terms of its performance management system and financial plan, as required by sections 26(i)(h) and 41(1)(b) of the MSA and regulations 2(3) and 12 of the Municipal Planning and Performance Management Regulations, 2001.

Adoption and implementation of integrated development plan

86. The municipality, within 14 days of the adoption of its IDP, did not give notice to the public of the adoption of the plan as required by section 25 of the MSA.
87. The municipality did not implement the IDP and conduct its affairs in a manner that was consistent with its IDP, as required by section 36 of the MSA.

Existence and functioning of a performance audit committee

88. The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

Internal auditing of performance measurements

89. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

Lack of implementation of a performance management system

90. The municipality did not implement a framework that described and represented how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement would be conducted, organised and managed, including determining the roles of the different role players, as required in terms of regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

No mid-year budget and performance assessments

91. The accounting officer of the municipality did not assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery and performance indicators set in the service delivery and budget implementation plan, as required by section 72 of the MFMA.

Performance information not received in time

92. An assessment could not be performed of the reliability of the reported performance information, as set out on pages ~~xx to xx~~ of the annual report, since the information was not received in time for audit purposes.

APPRECIATION

93. The assistance rendered by the staff of the municipality during the audit is sincerely appreciated.

Auditor - General

Kimberley

22 October 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence